

23 May 2019

Credit Rating

**Long-term (National):
(TR) AA**

**Outlook:
Stable**

**Short-term (National):
(TR) A1+**

**Outlook:
Stable**

TAT GIDA SANAYİ A.Ş.

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Rating Summary

Tat Gıda Sanayi A.Ş. ("Tat Gıda" or "the Company") was established on 1967 under the name of Tat Konserve Sanayi A.Ş. and has changed its title to Tat Gıda Sanayi A.Ş. on November 15, 2013. Tat Gıda Sanayi A.Ş. operates the Tat, SEK and Pastavilla brands. The Company's domestic marketing and sales activities are carried out by Düzey Tüketim Malları Sanayi Pazarlama ve Ticaret A.Ş. ("Düzey"), a Koç Group affiliate. Tat Gıda shares are listed on Borsa İstanbul since 1993. As of the first quarter of 2017, Tat Gıda is the market leader in tomato paste, ketchup and tomato products market with the Tat brand name and in pasteurized milk market with the Sek brand name.

Following our analysis of the position of the brands represented by the Company in the food and beverage sector, its financial performance, corporate structure as a Koç group of company as well as the level of its risk management, Tat Gıda's previous long term rating of AA+ (National) and the short term rating of A1+ (National) dated May 24, 2018 is revised as long term rating of **AA (National)** and short term rating of **A1+ (National)** and the outlook is revised as **Stable**.

Strengths and Risks

Strengths

- Strong parent company structure
- Industry experience
- Established market position of the brands
- Long-term financial debt structure

Risks

- Macroeconomic decline in demand
- Upward trend in raw material prices
- Rise in financing costs

Outlook

Tat Gıda, a subsidiary of Koç Holding, one of the leading groups in Turkey, has preserved the market position of its brands and maintained their profitability. The Company is the market leader in tomato paste, ketchup and tomato products under the Tat brand, leader in the pasteurized milk market and second in the mayonnaise market with the Sek brand. A positive aspect is that 79% of the Company's financial debt structure is extended to long term.

On the other hand, demand-side risks have been increasing as a result of general economic recession. Difficulties are experienced in reflecting the increase in raw material costs to the customers. Similarly, the extension of payment terms in the sector brings additional burdens on working capital. In addition, the rising trend in financing costs adversely affects the Company's profitability.

The Company's financing limits are sufficient and the currency risks are low. Taking into account all the above factors, the Company's outlook is evaluated as "**Stable**".

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections contributing to the final grade with specific weights. The quantitative analysis components consist of SAHA Score which measures the Company's distance from the point of default, its performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Default probability analysis measures a statistical distance to the point of default making use of industry specific significant financial ratios based on industry peer sample companies' past financial performance and default statistics. Comparative performance analysis determines the relative position of the company as compared with industry peers' financial performances and industry averages. The financial risk analysis of our methodology covers the evaluation of the Company's financial ratios on the basis of objective criteria. Liquidity, leverage, asset quality, profitability, volatility and concentration are treated as sub-headings in this analysis. Finally, scenario analysis evaluates the Company's performance with respect to its capability to fulfill its obligations under the future projections of a base and a stress scenario.

The qualitative analysis covers operational issues such as industry and company risks as well as administrative risks in the context of corporate governance practices. The industry analysis evaluates factors like the nature and rate of growth of the industry, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. The company analysis evaluates market share and efficiency, trends and volatilities in key performance indicators, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships if any.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency is once again revealed in the current global financial crisis we witness. Our methodology consist of four main sections; shareholders, public disclosure and transparency, stakeholders, and board of directors. The corporate governance methodology of SAHA can be accessed at www.saharating.com.

Rating Definitions

Our long term credit ratings reflects our present opinion regarding the mid to long term period of one year and above; Our short term credit ratings reflects our opinion regarding a period of one year. Our long term credit rating results start from AAA showing the highest quality grade and continue downward to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction within categories AA to CCC.

Companies and securities rated with long-term AAA, AA, A, BBB and short-term A1 +, A1, A2, A3 categories should be considered “investment worthy” by the market.

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Indicates that ability to meet financial obligations is extremely high. For securities, it is an indication of no more than a slight additional risk as compared to risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Credit quality is very high. Very high ability to fulfill financial obligations. Sudden changes at the company level and/or economic and financial conditions may increase investment risk, but not significantly.
(TR) A2	(TR) A- (TR) BBB+	High ability to fulfill financial obligations, but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	Sufficient financial ability to fulfill its obligations, but carries more risk in adverse economic conditions and changes. If securities; has adequate protection parameters, but issuer’s capacity to fulfill its obligations may weaken in face of adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B, C categories should be considered “speculative” by the market.

(TR) B	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but faces negative financial and economic conditions. If securities; below investment level, but on-time payments prevail, or under less danger than other speculative securities. However, if the issuer’s capacity to fulfill its obligations weakens, serious uncertainties may unfold.
(TR) C	(TR) B+ (TR) B (TR) B-	Currently has the capacity to fulfill financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk in due payment. Financial protection factors can show high fluctuations depending on the conditions of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below investment grade. In considerable danger of default. Fulfillment of its financial obligations depends on the positive performance of economic, sectoral and financial conditions. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. The company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

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This report, edited by SAHA A.Ş. analysts based on their best intentions, knowledge base and experience, is the product of an in-depth study of the available information which is believed to be correct as of this date. It is a final opinion about the overall credibility of the institutions and/or debt instruments they have issued. The contents of this report and the final credit rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment decisions or other purposes.

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